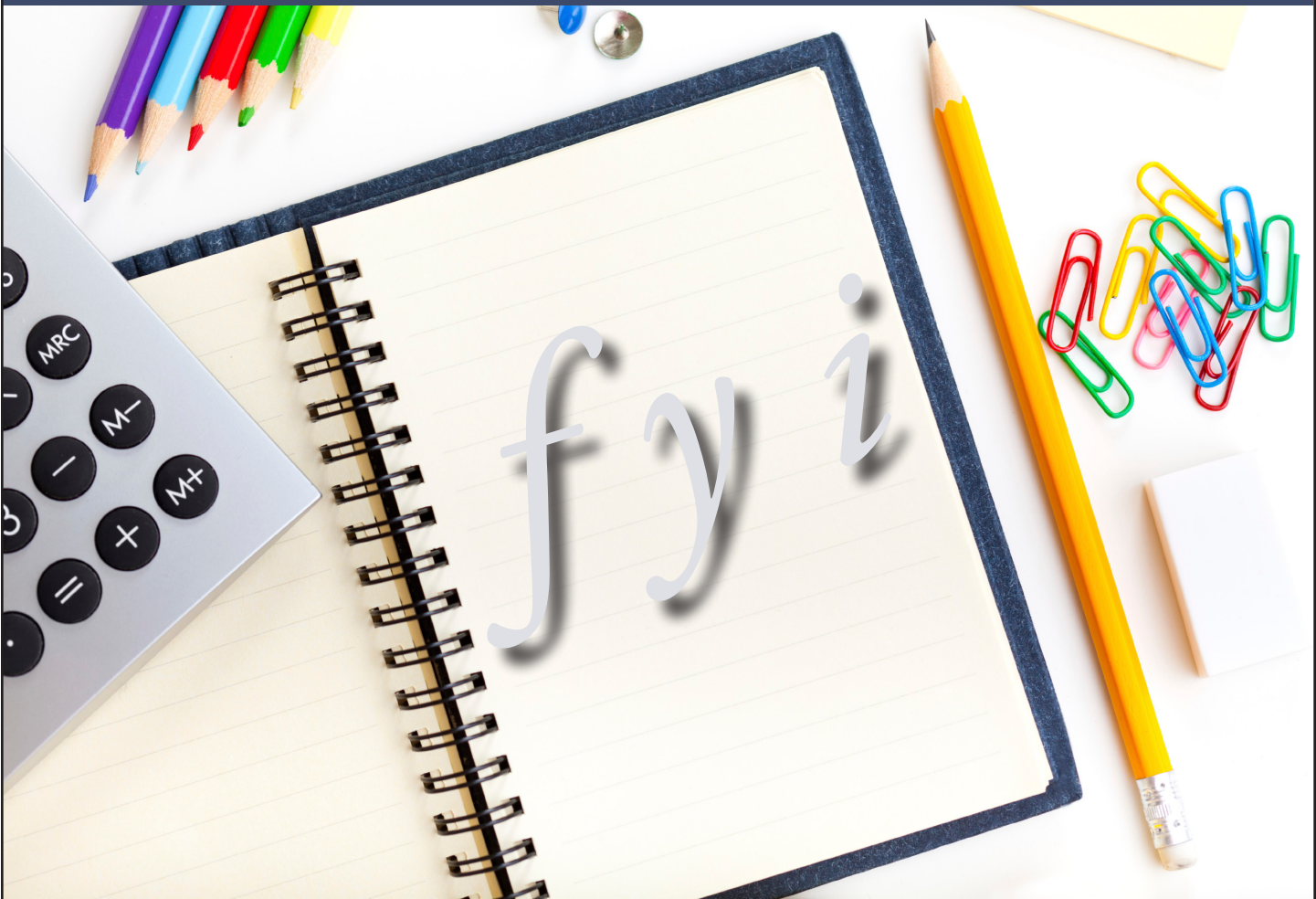




MoDOT & Patrol Employees' Retirement System

For Your Information



January 2013

Unless otherwise specified, all data contained in this document is as of June 30, 2012 (end of fiscal year 2012).

Board of Trustees



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Mission Statement

To provide a basic level of financial security to plan participants by delivering quality benefits and exceptional customer service through professional plan administration and prudent management of System assets.

Vision Statement

To be the best retirement system we can be by making strategic investment decisions and implementing technological tools that streamline our processes and enhance customer service.

Core Values

- *Our members are our number one focus...we work for them.*
- *We strive to provide exceptional service always no matter who is on the phone or sitting across from us.*
- *We are committed to security and privacy of our members' information.*
- *We make decisions in the best interest of our members based upon statutory guidance.*
- *We conduct business at a reasonable cost to the taxpayers of Missouri.*

About MPERS

The MoDOT and Highway Patrol Employees' Retirement System (MPERS) was established September 1, 1955 through the passage of House Bill 66. On October 1, 1955, the System accepted 109 retirements. Members of MPERS are comprised of eligible employees of the Missouri Department of Transportation (MoDOT), the Missouri State Highway Patrol (MSHP), and MPERS. MPERS administers the retirement, survivor, and disability benefits in accordance with Chapter 104 of the Revised Statutes of Missouri (RSMo). The retirement system operates as a 401(a) tax qualified "defined benefit plan."

For the first 35 years of its existence, the retirement system was operated as a unit of the Missouri Highways and Transportation Commission. Highway staff were assigned on a part-time basis to carry out the System's business. In 1988, the first executive director position was established. As the membership and the assets of the System grew, it became clear that full-time staff were needed.

Benefits are part of the compensation package used to recruit and retain employees who will provide high quality services to Missouri citizens. MPERS' retirement benefit, when combined with Social Security and personal savings, is designed to help career employees achieve a reasonable level of replacement income to support their financial needs during retirement.

Funding the System

Since August 13, 1976, the cost of the retirement plan has been funded solely by employer contributions and income on investments from those contributions.

However, employees hired for the first time in a benefit eligible position on or after January 2011 will contribute 4% of their payroll to help fund their retirement benefits. This is a result of the pension reform legislation that passed in 2010.

Each year, the MPERS Board of Trustees establishes a contribution rate for the next fiscal year. The contribution rate, which is set as a percentage of payroll, is calculated by the System's actuary. The contribution rate is designed to cover the System's benefit obligations and administrative costs for the coming fiscal year and into the future. The calculation of the contribution rate is based on a number of factors including the current level of benefits, the number of participants in the plan, current and future pay levels, the age and average life expectancy of members, expected earning on investments, and the plan's unfunded liability.



Key Funding Events

September 1, 1955	Employees began contributing 4% of their first \$7,500 salary. Employers contributed the same percentage.
October 1, 1955	System accepted 109 retirements.
August 13, 1976	Employee contributions were eliminated. Contributions and interest refunded upon retirement.
February 14, 1980	Contributions plus interest refunded to active members (total refund was approximately \$41 million).
January 1, 2011	Employees hired for the first time will be members of the new contributory 2011 Tier of the Year 2000 Plan. The employee contribution is 4% of pay with interest paid annually.

Board of Trustee Structure

The System operates under the direction and control of an 11-member Board of Trustees. The Board consists of the following members:

Trustee	Appointed/Elected	Length of Term
3 Members of the Missouri Highways and Transportation Commission	Appointed by Members of the Commission	Until Commission Expires or Replacement Appointed
Director of the Department of Transportation	By Virtue of Position	While in Position of Director
Superintendent of the Highway Patrol	By Virtue of Position	While in Position of Superintendent
1 Member of the Senate	Appointed by the President Pro Tem of the Senate	Until Replacement Appointed
1 Member of the House of Representatives	Appointed by the Speaker of the House	Until Replacement Appointed
1 Active MoDOT Employee	Elected by Active MoDOT Employees	4 years
1 Active Highway Patrol Employee	Elected by Active Highway Patrol Employees	4 years
1 Retired MoDOT Member	Elected by Retired MoDOT Members	4 years
1 Retired Highway Patrol Member	Elected by Retired Highway Patrol Members	4 years

Role of the Board

The MPERS Board of Trustees has certain responsibilities set forth in Missouri State law and also implied authority to take the steps that are necessary for its prudent oversight of the System. For the MPERS Board to meet its obligations under the law, every Trustee has a personal responsibility to uphold the highest fiduciary standards and actively contribute to the governance of MPERS.

The Board is responsible for all aspects of the retirement system's operations. The day-to-day management of MPERS is delegated to the Executive Director who is hired by the Board. The Executive Director acts as an advisor to the Board on all matters pertaining to the System and, with the approval of the Board, contracts for professional services and employs the remaining staff needed to operate the System.

MPERS is a creation of state law and through that law the Board is established as the highest level body that has fiduciary responsibility for the System and those covered by the System. Fiduciary duty is a legal relationship of trust between parties, where one party is acting for the benefit of another. Fiduciaries of pension funds have strict standards imposed upon them by law. The Board's primary fiduciary responsibilities are:

- The duty of loyalty
- The duty of prudence
- The duty to follow plan documents

In addition to administrative rules, the Board adopted "governance policies" that set forth the expectations the Board has for itself and formalize the way the Board conducts business. The policies are intended to help the Board meet its fiduciary responsibilities. The governance policies set forth the structure, manner, and process by which the Board exercises its authority and control.

Executive Staff



Executive Director

Scott Simon



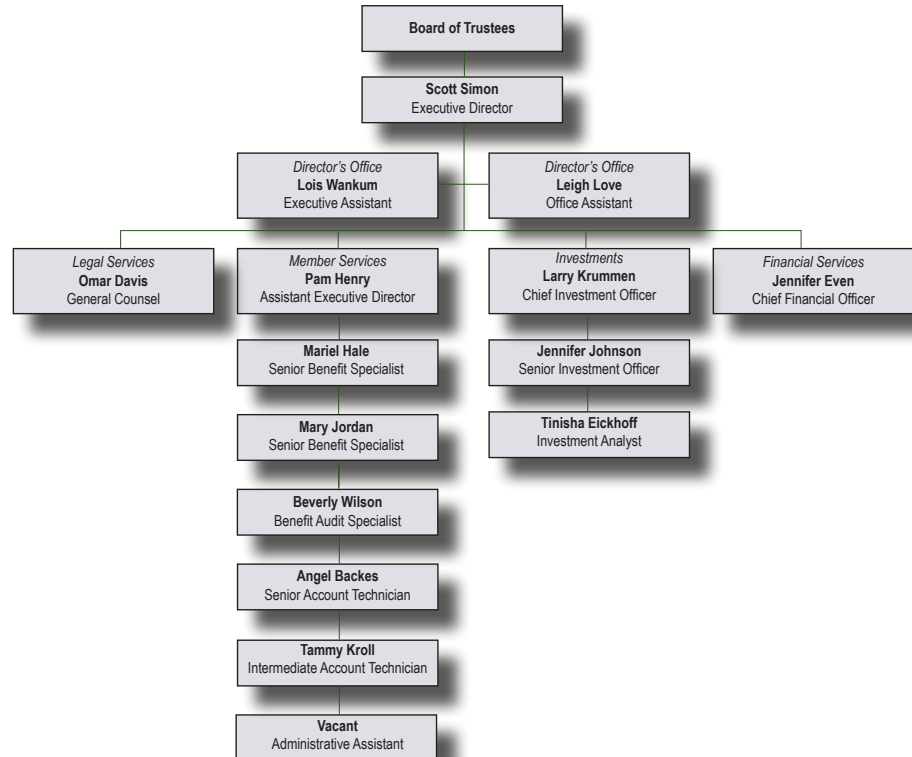
Assistant Executive Director

Pam Henry



Chief Investment Officer

Larry Krummen



Key Staff Events

September 1, 1955	Operated as a unit of the State Highway and Transportation Department. Highway staff were assigned on a part-time basis to carry out the System's business.
August 13, 1988	First Executive Director position was established to administer the System in lieu of the Highway and Transportation Commission Secretary.
October 1, 2001	Hired (transferred) 5 full-time employees to operate the plan.
November 28, 2001	Hired the first Assistant Executive Director.
December 1, 2003	Hired the first Chief Investment Officer (CIO).
January 1, 2005	Hired the first in-house General Counsel.
February 1, 2006	Hired the first Senior Financial Officer.
September 27, 2007	Hired the first Senior Investment Officer.

Membership Profile

MPERS' membership is comprised of eligible employees of the Missouri Department of Transportation, the Missouri State Highway Patrol, and MPERS staff.

	MoDOT & MPERS	Highway Patrol	Totals
Active Members	5,091	2,337	7,428
Retirees	4,638	1,376	6,014
Survivors/Beneficiaries	1,575	307	1,882
Terminated-Vested Members	1,659	378	2,040
Disability Recipients	153	21	174
Totals	13,116	4,422	17,538

Active Membership - Closed Plan

Average Age
48.7 years

Average Years of Service
20.2 years

Average Salary
\$50,115

New Retiree Information

Average Retirement Age
57.3 years

Average Years of Service
23.6 years

Average Final Average Pay
\$3,527

Average Monthly Benefit
\$1,848

Active Membership - Year 2000 Plan

Average Age
40.4 years

Average Years of Service
6.9 years

Average Salary
\$37,366

Average Annual Benefit
\$22,176

History of Employer Contributions and Benefit Payments

Active Membership - 2011 Tier

Average Age
31.5 years

Average Years of Service
0.8 years

Average Salary
\$24,021

	Employer Contributions	Benefit Payments
FY2007	\$121.7	\$175.9
FY2008	\$124.5	\$185.8
FY2009	\$123.0	\$192.0
FY2010	\$124.4	\$196.7
FY2011	\$149.9	\$202.1
FY2012	\$164.9	\$219.7

Retirement Benefit Formula

As a defined benefit plan, members who meet the age and service requirements are guaranteed a retirement benefit based on a formula that is set by law. The base benefit formula is comprised of the following three components:

Final Average Pay (FAP) - The average of a member's highest 36 consecutive months of pay.

Credited Service - The members's years and full months of service.

Multiplier - The multiplier is a percentage that is set by law.

Base Benefit Formula

$$\text{Final Average Pay} \times \text{Credited Service} \times \text{Multiplier} = \text{Base Benefit}$$

Retirement Plans

MPERS administers two distinct retirement plans: 1) the Closed Plan and 2) the Year 2000 Plan. The Year 2000 Plan consists of two benefit tiers: 1) non-contributory and 2) contributory. To participate in a retirement plan, the employee must be working in a benefit eligible position for MoDOT, MSHP, or MPERS. A benefit eligible position is one normally requiring the performance of duties during not less than 1,040 hours per year.

Closed Plan (non-contributory)

The Closed Plan was the original retirement plan for eligible employees hired prior to July 1, 2000. At retirement, these members may elect to stay in the Closed Plan or retire under the Year 2000 Plan.

Year 2000 Plan (non-contributory)

Benefit eligible employees hired on or after July 1, 2000 are members of the Year 2000 Plan.

Year 2000 Plan - 2011 Tier (contributory)

During a special legislative session in 2010, a contributory tier was added to the Year 2000 Plan for benefit eligible employees hired for the first time on or after January 1, 2011.



Key Plan Events

September 1, 1955	Highways and Transportation Employees' and Highway Patrol Retirement System (HTEHPRS) was created through the passage of Senate Bill 66. <i>In 2004, the System was renamed the MoDOT and Highway Patrol Employees' Retirement System (MPERS).</i>
October 1, 1955	System accepted 109 retirements.
July 1, 2000	The Year 2000 Plan became effective.
January 1, 2011	The 2011 Tier of the Year 2000 Plan became effective.

Retirement Benefit Eligibility

Members will be eligible for early or normal retirement when they meet the appropriate age and service requirements.

Minimum Age and Service Requirements for Retirement

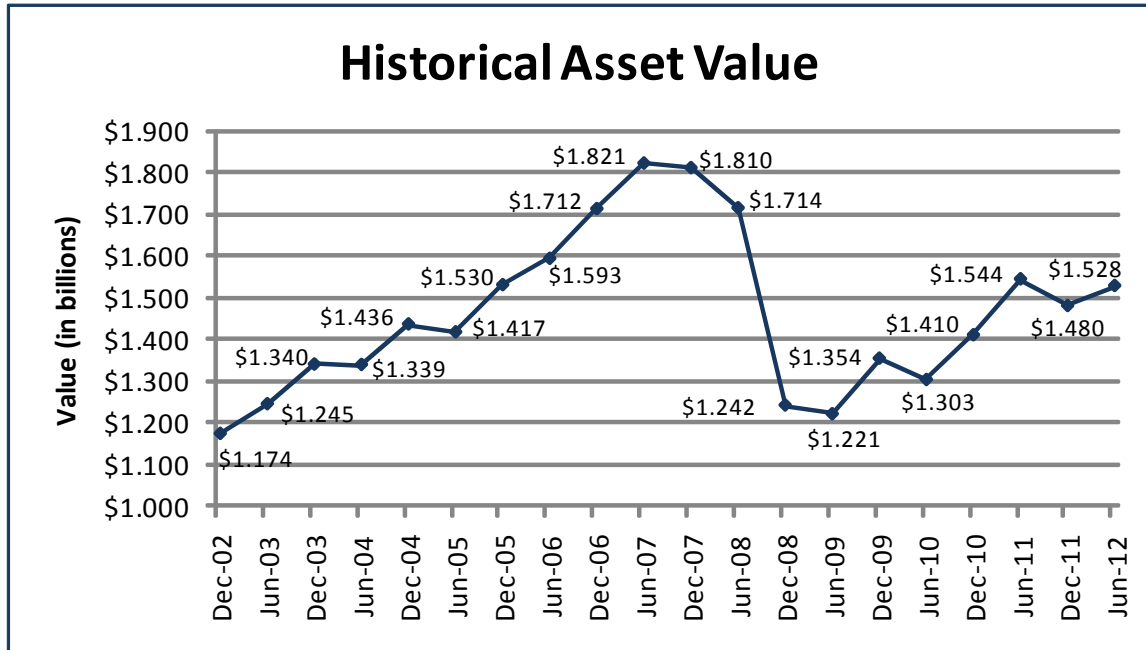
	Early Retirement	Normal Retirement
Closed Plan <i>(Vested with 5 years of service)</i>	Age 55 with 10 years of service	- Age 65 with 5 years of service - Age 60 with 15 years of service “Rule of 80” - age 48 with sum of age and service equaling 80 or more
Closed Plan - <u>Uniformed Patrol</u> <i>(Vested with 5 years of service)</i>	Not eligible	- Age 55 with 5 years of service “Rule of 80” - age 48 with sum of age and service equaling 80 or more - Mandatory retirement at age 60
Year 2000 Plan <i>(Vested with 5 years of service)</i>	Age 57 with 5 years of service	- Age 62 with 5 years of service “Rule of 80” - age 48 with sum of age and service equaling 80 or more
Year 2000 Plan - <u>Uniformed Patrol</u> <i>(Vested with 5 years of service)</i>	Not eligible	“Rule of 80” - age 48 with sum of age and service equaling 80 or more - Mandatory retirement at age 60 with 5 years of service
2011 Tier <i>(Vested with 10 years of service)</i>	Age 62 with 10 years of service	- Age 67 with 10 years of service “Rule of 90” - age 55 with sum of age and service equaling 90 or more
2011 Tier - <u>Uniformed Patrol</u> <i>(Vested with 10 years of service)</i>	Not eligible	- Age 55 with 10 years of service - Mandatory retirement at age 60

Long-Term and Work-Related Disability Benefits

Long-Term Disability	Work-Related Disability
Benefit equals: 60% of pre-disability earnings (<u>reduced</u> by deductible income) - Maximum LTD benefit is \$15,000 per month (<u>before</u> deductible income reduction)	Benefit is the lesser of: 70% of pre-disability earnings (<u>not offset</u> by deductible income); or 90% of pre-disability earnings (<u>offset</u> by deductible income)

History of Investment Performance

- For FY2012, MPERS had a 2.7% return on investments.
- As of June 30, 2012, the fund balance is \$1.528 billion.
- (As of September 10, 2012, the fund balance is \$1.612 billion.)



Investment Performance (as of June 30, 2012)

Fund Balance: \$1.528 Billion

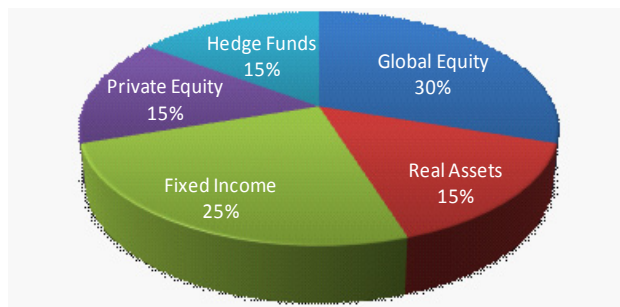
Funded Status: 46.3%

	FY2012	FY2011	FY2010	FY2009
Fund Balance	\$1.5 billion	\$1.5 billion	\$1.3 billion	\$1.2 billion
1-Year	2.7%	21.8%	12.9%	(24.7%)
3-Years	12.2%	1.2%	(6.0%)	(4.6%)
5-Years	.8%	3.6%	2.4%	2.1%
10-Years	6.5%	5.6%	3.0%	2.3%

Asset Allocation

During the course of FY2010, MPERS' Board of Trustees completed a review of the current asset allocation to ensure the strategies being utilized are appropriate relative to the System's return objectives and tolerance for risk. With the help of outside consultants, each and every facet of the asset allocation process was reviewed. As a result, the following asset allocation was approved going forward.

New Asset Allocation



F.Y.I.

Key Investment Events

September 1, 1955	Retirement System created through the passage of Senate Bill 66. System's assets invested conservatively through United Missouri Bank (UMB).
October 1, 1997	Started to diversify investment managers by hiring 7 managers over the next 4 years in addition to UMB.
December 1, 2003	Hired the first Chief Investment Officer (CIO) of the retirement system.
2005 - 2006	Portfolio restructured to diversify portfolio and take advantage of opportunities in alternative asset classes such as real estate, private equity, and hedge funds.
September 27, 2007	Hired the first Senior Investment Officer to assist CIO with investment portfolio.
September 2009	Board adopted a 15-year accelerated funding schedule for the retiree liability.
June 30, 2010	Further revisions to asset allocation adopted to reduce risk in investment portfolio.
September 2011	Completed transition to revised asset allocation targets.

FY2013 Employer Contribution Rates (as a percentage of payroll)

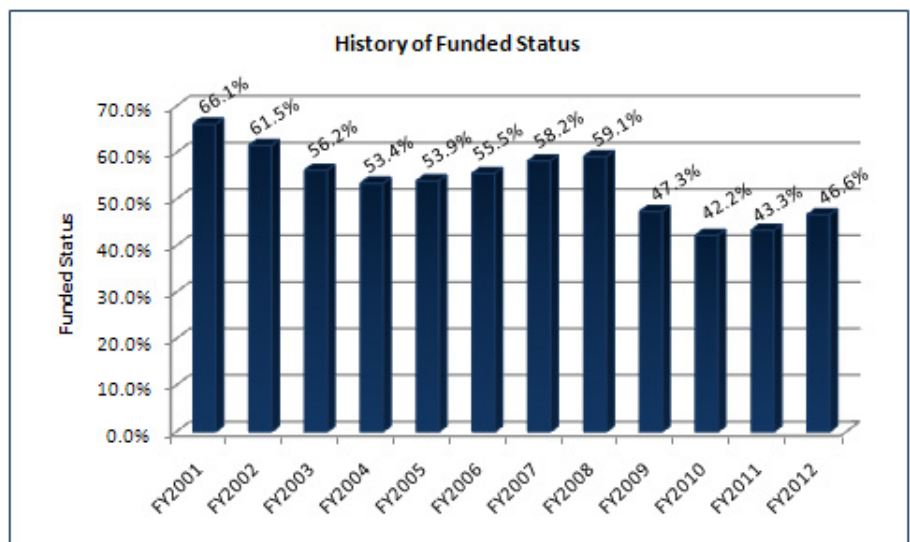
	MoDOT & Civilian Patrol	Uniformed Patrol
Cost of Current Year's Benefit	11.25%	12.06%
Catch Up Payment on the Unfunded Liabilities	38.41%	41.71%
Expenses	0.73%	0.73%
Subtotal	50.39%	54.50%
Disability Premium	.53%	.53%
Total Employer Contribution Rate	50.92%	55.03%

Board adopted the accelerated rate which amortizes the retiree liability over 15 years and the other unfunded liability over 30 years.

Decisions made by multiple groups over the years regarding benefit increases, plan assumptions, contributions, and investment policy, coupled with market declines in the past decade have resulted in an unfunded liability.

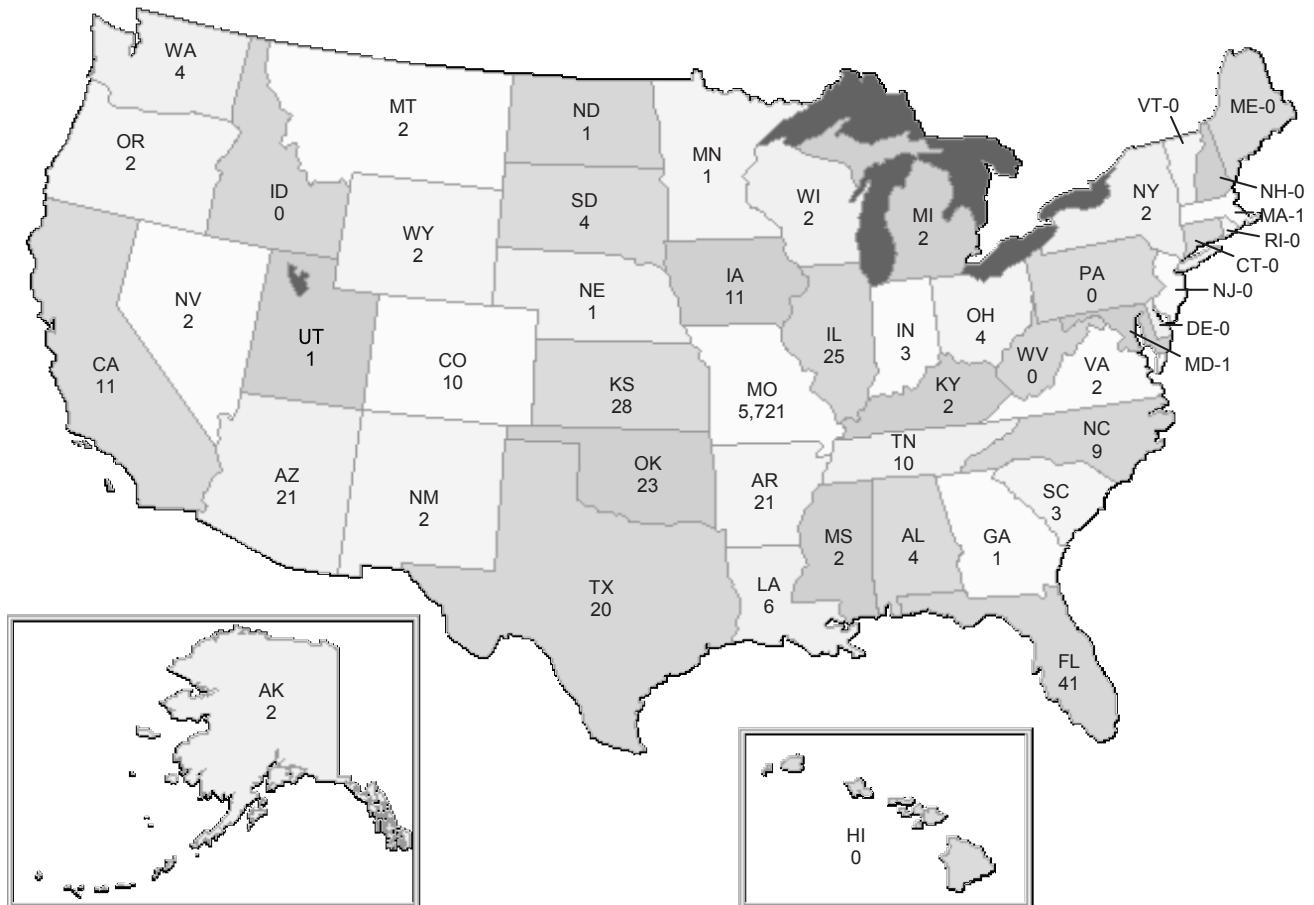
Actions Taken to Improve Funded Status

- The Board is committed to fully funding the plan. The ultimate funding goal is 100%.
- An accelerated funding schedule was put in place to allow the unfunded liability (the employer's IOU to the System) to be paid off sooner. Starting in FY2011, the employers (MoDOT and Highway Patrol) will pay an additional \$5 million in contributions annually towards the unfunded liability.



Location of MPERS Retirees

This map represents the demographic distribution of retirees by state. Roughly 95% of MPERS benefit recipients live in Missouri. In FY2012, MPERS paid out over \$219 million in benefits, of which over \$208 million remained in Missouri.



1 Retiree resides in England

1 Retiree resides in Canada

MoDOT and Patrol Employees' Retirement System

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